

KIP REIT (KIP MK)

More Than Meets The Yield

Highlights

- The defensive REIT offers investors an attractive yield of 7.6% in FY26, with re-rating potential from its acquisition-led growth and improving liquidity.
- DPU has grown under the current CEO, and we forecast a 4% three-year CAGR in DPU during FY25-28F, underscoring management's execution capability and focus on unitholder returns.
- Initiate coverage with BUY and a DDM-based target price of RM1.15.

Analysis

- **Defensive suburban malls underpin stable and resilient cash flows.** KIP Real Estate Investment Trust's (KIP REIT) malls in the suburbs are supported by daily-needs consumption from the surrounding catchments, which tends to be stable across economic cycles. Management has guided for an overall rental reversion of 5-10% for the next few years. This will be driven by low-teens rental reversion expected from its KIPMall assets in Johor, namely KIPMall Tampoi, KIPMall Kota Tinggi, and KIPMall Masai, which accounted for 33% of total NPI in FY25.
- **Ramping up AEIs at core KIPMall assets.** Management is stepping up AEI plans for FY26 of RM26m (FY25: RM6.1m). This is driven mainly by the RM22m refurbishment at KIPMall Tampoi, which contributed 15% of FY25 net property income (NPI). After the AEI, KIPMall Tampoi is expected to deliver a higher rental revenue of 5-10% and efficiency on the back of: a) stronger footfall via a modernised fresh market format, and b) broader adoption of GTO rent and parking income. New tenants include TCRS, ZUS Coffee, CU Mart, Guardian, Mixue and selected local F&B concepts. Looking ahead, the AEI pipeline will extend to KIPMall Masai (14% of NPI in FY25), with AEON Mall Kinta City's refurbishment works and expansion targeted for completion by 4Q27.
- **Aiming for an acquisition yield of over 7%.** KIP REIT has set an asset under management (AUM) target of RM2.0b by FY27, up from the current AUM of RM1.7b as of end-Dec 25. The acquisition strategy is underpinned by a focus on yield discipline, with management targeting NPI acquisition yields of >7%. Based on its gross gearing of 39.5% as at end-FY25, KIP REIT has headroom for about RM267m of additional borrowings before reaching its internal gearing cap of 45%.

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Key Financials

Year to 30 Jun (RMm)	FY24	FY25	FY26F	FY27F	FY28F
Net turnover	102.2	136.1	163.7	172.2	179.3
EBITDA	78.9	98.0	121.3	128.2	133.5
Operating profit	77.8	96.8	120.1	127.0	132.3
Net profit (rep./act.)	47.3	115.1	72.8	75.5	79.0
Net profit (adj.)	51.5	53.4	72.8	75.5	79.0
EPS	8.4	6.9	7.7	7.9	8.2
DPU	6.7	6.8	7.1	7.3	7.7
PE	11.2	13.6	12.2	11.9	11.4
P/B	0.9	0.8	0.9	0.9	0.9
Dividend yield	7.1	7.2	7.6	7.8	8.2
Net margin	50.5	39.2	44.5	43.9	44.0
Net debt/(cash) to asset	34.2	35.9	35.1	34.2	33.6
Interest cover	5.0	4.1	4.7	4.6	4.6
ROE	7.7	6.8	7.6	7.3	7.6
Consensus DPU	-	-	6.9	7.2	7.6
UOBKH/Consensus (x)	-	-	1.0	1.0	1.0

Source: KIP REIT, Bloomberg, UOB Kay Hian

	BUY
Share Price	RM0.94
Target Price	RM1.15
Upside	22.3%

Analyst(s)

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Stock Data

GICS Sector	Real Estate
Bloomberg ticker	KIP MK
Shares issued (m)	958.6
Market cap (RMm)	901.1
Market cap (US\$m)	229.6
3-mth avg daily t'over (US\$m)	0.3

Price Performance (%)

52-week high/low				RM0.96/RM0.82	
1mth	3mth	6mth	1yr	YTD	
3.9	5.6	9.9	6.8	5.0	

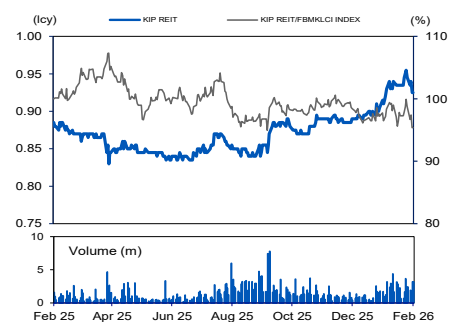
Major Shareholders

	%
Ong Choo Meng	8.8
Ong Kook Liong	7.5
AIA	4.4
EPF	4.0

Balance Sheet Metrics

	%
FY26F NAV/Share (RM)	1.09
FY26F Net Debt/Share (RM)	0.64

Price Chart



Source: Bloomberg

Company Description

KIP REIT mainly focuses on community-centric retail centres. Its portfolio has grown to include 18 properties, featuring KIPMall assets in various Malaysian states, AEON Mall Kinta City, and industrial properties.

- **ESG-linked cost optimisation measure.** Separately, KIP REIT has entered into a 20-year partnership with KJ Technical Services (KJTS) to enhance chiller system efficiency across eight malls, which is expected to reduce chiller plant energy costs by 14.5%, after recovering capital expenses. Specifically, KJTS will finance capex of RM22.9m for retrofit, which commenced in Apr 25 and is scheduled for progressive completion by Jul 26. Subsequently, KIP REIT will pay a fixed chilled water fee of RM1.57m per annum (including a base fee of RM426,000 per annum) for operation and maintenance (O&M) services and chilled water supply provided by KJTS for a 20-year period. After the retrofit, management expects net cooling cost savings of RM1m per annum, accounting for 5% of utilities expenses in FY25.
- **Attractive FY26 dividend yield of 7.6% with visible growth.** KIP REIT offers an attractive dividend yield of 7.6%, above the sector's average of 5.8%, underpinned by a portfolio of community-centric suburban malls with resilient demand. Looking ahead, we expect DPU growth of 3-5% over the next few years, supported by healthy operating cash flow and management's commitment to shareholder returns.

Valuation/Recommendation

- **Attractive dividend yield compared with peers.** At its closing price on 10 Feb 26, KIP REIT traded at an attractive 12-month forward dividend yield of 7.8%, higher than the sector's average current yield of 5.6%. Our implied yield for KIP REIT remains below that of CapitaLand Malaysia Trust, reflecting its relatively defensive NPI margins and higher ROE which are supported by its big-box retail format and lower operating intensity. While the 12-month forward yield spread to 10-year MGS yield has narrowed from its recent peak of 515bp to 425bp (vs historical mean of 407bp), it is still above the sector's current average spread of 200bp.
- **Initiate coverage with a BUY rating and target price of RM1.15.** We derive our target price using a dividend discount model, based on a required rate of return of 8.4% and terminal growth rate of 1.5%. Our target price implies an FY26 dividend yield of 6.2% (vs historical mean of 7.7%). We see re-rating potential given: a) the group's ramp-up of AEI at its core KIPMall assets, and b) improving liquidity and access to financing after it achieves its market cap target of RM1b.

Environmental, Social, Governance (ESG)

- **Environment:** Targets to reduce Scope 2 emissions by 1% yoy for FY26, with a cumulative reduction target of 6% by 2030, in line with Malaysia's broader carbon-neutrality aspirations.
- **Social:** Achieved 100% localisation of its supply chain by engaging Malaysian suppliers, with a strong focus on regionally-based SMEs.
- **Governance:** Achieved 33% of women representation among the Board of Directors.

Peers' Implied Yield

Company	Rating	Trading 2026F Yield (%)	Implied 2026F Yield (%)	Required Rate of Return (%)
Axis REIT	BUY	5.0	4.8	6.5
CapitaLand Malaysia	BUY	7.5	6.6	8.5
IGB REIT	HOLD	4.6	5.1	7.0
KLCC Stapled Group	HOLD	5.1	5.6	7.2
Pavilion REIT	BUY	5.2	4.9	7.1
Sunway REIT	BUY	5.3	4.9	7.0
KIP REIT	BUY	7.6*	6.2*	8.4

*2026F refers to FY26

Source: UOB Kay Hian

12-Month Forward Dividend Yield At 7.8%



Source: Bloomberg, UOB Kay Hian

12-Month Forward Yield Spread At 425Bp



Source: Bloomberg, UOB Kay Hian

Profit & Loss Cash Flow

Year to 30 Jun (RMm)	FY25	FY26F	FY27F	FY28F
Net turnover	136.1	163.7	172.2	179.3
EBITDA	98.0	121.3	128.2	133.5
Deprec. & amort.	1.2	1.2	1.2	1.2
EBIT	96.8	120.1	127.0	132.3
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(23.8)	(25.5)	(27.8)	(29.0)
Pre-tax profit	115.1	72.8	75.5	79.0
Tax	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
Net profit	115.1	72.8	75.5	79.0
Net profit (adj.)	53.4	72.8	75.5	79.0

Cash Flow

Year to 30 Jun (RMm)	FY25	FY26F	FY27F	FY28F
Operating	130.5	72.9	77.5	80.8
Pre-tax profit	115.1	72.8	75.5	79.0
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	1.2	1.2	1.2	1.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	54.5	(1.1)	0.8	0.6
Other operating cashflows	(40.3)	0.0	0.0	0.0
Investing	(384.0)	(182.1)	(5.0)	(5.0)
Capex	(11.7)	(9.4)	(5.0)	(5.0)
Investments	(357.4)	(172.7)	0.0	0.0
Others	(14.9)	0.0	0.0	0.0
Financing	275.6	94.3	(40.2)	(53.5)
Distribution to unitholders	(45.5)	(67.7)	(70.2)	(73.5)
Issue of shares	148.5	132.0	0.0	0.0
Proceeds from borrowings	200.0	50.0	50.0	50.0
Loan repayment	0.0	(20.0)	(20.0)	(30.0)
Others/interest paid	(27.4)	0.0	0.0	0.0
Net cash inflow (outflow)	22.2	(14.9)	32.3	22.4
Beginning cash & cash equivalent	34.3	56.5	41.5	73.9
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	56.5	41.5	73.9	96.2

Balance Sheet

Year to 30 Jun (RMm)	FY25	FY26F	FY27F	FY28F
Fixed assets	1,484.8	1,665.7	1,669.5	1,673.3
Other LT assets	27.5	27.5	27.5	27.5
Cash/ST investment	56.5	41.5	73.9	96.2
Other current assets	8.2	7.7	8.0	8.3
Total assets	1,577.0	1,742.5	1,778.9	1,805.3
ST debt	16.4	16.4	16.4	16.4
Other current liabilities	36.9	36.9	36.9	36.9
LT debt	606.4	636.4	666.4	686.4
Other LT liabilities	23.3	21.6	22.7	23.6
Shareholders' equity	894.2	1,031.2	1,036.5	1,042.1
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,577.0	1,742.5	1,778.9	1,805.3

Key Metrics

Year to 31 Jan (%)	FY25	FY26F	FY27F	FY28F
Profitability				
EBITDA margin	72.0	74.1	74.4	74.5
Pre-tax margin	84.6	44.5	43.9	44.0
Net margin	84.6	44.5	43.9	44.0
ROA	9.3	5.5	5.7	5.9
ROE	6.8	7.6	7.3	7.6
Growth				
Turnover	33.3	20.3	5.2	4.2
EBITDA	24.3	23.7	5.6	4.2
Pre-tax profit	143.3	(36.8)	3.8	4.6
Net profit	143.3	(36.8)	3.8	4.6
Net profit (adj.)	3.5	36.4	3.8	4.6
EPS	(17.8)	11.1	2.6	4.6
Leverage				
Debt to total capital	69.6	63.3	65.9	67.4
Debt to equity	69.6	63.3	65.9	67.4
Net debt/(cash) to equity	63.3	59.3	58.7	58.2
Interest cover (x)	4.1	4.7	4.6	4.6

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